

Message Text

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ACTION EA-10

INFO OCT-01 ISO-00 EB-07 TRSE-00 OMB-01 CIEP-01 CEA-01

CIAE-00 INR-05 NSAE-00 RSC-01 L-02 PRS-01 SS-15 NSC-05

AID-05 /055 W

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R 110210Z DEC 74

FM AMEMBASSY RANGOON

TO SECSTATE WASHDC 8900

C O N F I D E N T I A L RANGOON 3447

E.O. 11652: GDS

TAGS: EFIN BM

SUBJ: DEVALUATION OF KYAT

REF: (A) STATE 256856 (B) RANGOON 3297 (C) STATE 267687

(D) DOC/IMF EBS/74/405

1. MINISTRY OF PLANNING AND FINANCE OFFICIAL INFORMED EMBOFF THAT GUB PLANNING TO DEVALUE KYAT BY "ABOUT 20 PERCENT". WE HAVE NO INFORMATION ON EXACT TIMING OF DEVALUATION OTHER THAN THAT NOTED IN REF D, I.E., LATTER HALF OF DECEMBER. HOWEVER, GUB ANNOUNCED A PREVIOUS DEVALUATION (1971) ON DECEMBER 26 AND MAY TAKE ADVANTAGE OF CHRISTMAS HOLIDAY TO DO SO AGAIN.

2. EFFECT OF 20 TO 25 PERCENT DEVALUATION ON BURMESE ECONOMY WILL BE SMALL AS MOPF SOURCE READILY CONCEDED, WHILE ARGUING THAT IT IS MAXIMUM NOW POLITICALLY FEASIBLE. DEVALUATION OF 25 PERCENT WOULD PLACE VALUE OF KYAT AT APPROXIMATELY K6 EQUALS \$1, FAR BELOW FREE MARKET RATE WHICH HAS AVERAGED AROUND K15 EQUALS \$1 IN PAST MONTHS. FURTHER, DEVALUATION UNACCOMPANIED BY OTHER DECONTROLS OR RETURN TO FREER MARKET SYSTEM, WILL DO LITTLE TO STIMULATE ECONOMY OR CORRECT TRADE IMBALANCE. AS LEGAL IMPORTS ALREADY HELD TO BARE MINIMUM BY GOVERNMENT CONTROLS, HIGHER PRICES FOR IMPORTED GOODS AS RESULT OF DEVALUATION COULD NOT FURTHER DISCOURAGE OFFICIAL IMPORTS. ON CONTRARY, REF D REFERS TO NEW POLICY FOR EXPANDED IMPORTS.

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3. AS FOR EXPORTS, WE DO NOT FULLY SHARE IMF OPINION THAT DEVALUATION ESPECIALLY ONE THAT DOES LITTLE TO PLACE REALISTIC VALUE ON KYAT, WILL NECESSARILY ENHANCE PROSPECTS FOR EXPORT GROWTH. BURMA'S PROBLEM WITH EXPORTS OF ITS PRIMARY PRODUCTS IS LARGELY PRODUCTION RATHER THAN MARKETING AND DEVALUATION WITHOUT OTHER REFORMS IS NOT LIKELY TO SOLVE THIS PROBLEM. WE WOULD BE HARD PRESSED TO NAME ANY NONTRADITIONAL PRODUCTS PRODUCED IN SUFFICIENT QUANTITY FOR EXPORT THAT WOULD BE IMMEDIATELY AFFECTED BY DEVALUATION.

4. ON THE OTHER HAND, EVEN A LIMITED DEVALUATION WILL HAVE SOME USEFUL EFFECT ON ECONOMIC, ESPECIALLY INVESTMENT, DECISION-MAKING, GIVING POLICY-MAKERS, WORKING WITH KYAT FIGURES, A SOMEWHAT BETTER FEEL FOR ALTERNATIVE ALLOCATIONS OF RESOURCES -- E.G., CONSTRUCTION OF A NEW PARLIAMENT BUILDING (USING MOSTLY LOCAL MATERIALS) VERSUS EXPORT OF EQUIVALENT QUANTITIES OF TIMBER.

5. WE BELIEVE OTHER REFORMS MENTIONED IN IMF DOCUMENT, SUCH AS HIGHER PROCUREMENT PRICES, NEW TAXES, MORE FLEXIBLE PRICING POLICIES AND GREATER BUDGETARY AUTONOMY FOR STATE BOARDS AND CORPORATION WILL PERHAPS HAVE MORE SIGNIFICANT EFFECT ON BURMESE ECONOMY THAN DEVALUATION. OF SPECIAL IMPORTANCE IS THE MOVE TOWARD GREATER AUTONOMY FOR STATE BOARDS AND CORPORATIONS, WHICH IS SCHEDULED TO TAKE EFFECT NEXT APRIL 1. MOPF OFFICIAL SAID THESE AGENCIES WILL ACQUIRE GREATER MANAGEMENT POWERS INCLUDING RIGHT TO HIRE AND FIRE, AND EVENTUALLY CONSIDERABLY INCREASED FINANCIAL POWERS. GUB WILL CEASE TO PROVIDE ADDITIONAL CAPITAL FUNDS, AND LOSSES WILL HAVE TO BE COVERED BY RESORT TO A (REORGANIZED) BANKING SYSTEM WHICH WILL BE EMPOWERED TO REQUIRE PERFORMANCE IMPROVEMENTS AND TO CHARGE NEW AND HIGHER INTEREST RATES ON ADVANCES. REORGANIZATION OF BANKING SYSTEM NEXT SEPTEMBER WILL CREATE SEPARATE INDUSTRIAL FINANCE, AGRICULTURAL FINANCE, FOREIGN EXCHANGE, AND CENTRAL AND COMMERCIAL BANKING ENTITIES, AND HOPEFULLY ENABLE THE NEW BANKS TO COPE WITH THEIR INCREASED FINANCIAL POWERS.

6. DEVALUATION WITH THE ABOVE-MENTIONED REFORM IS A WELCOME STEP BY GUB TOWARD MORE PRAGMATIC ECONOMIC POLICIES, AND IT INDICATES THAT GUB IS RESPONSIVE TO SUGGESTIONS AND PRESSURES FOR REFORM FROM MULTILATERAL ORGANIZATIONS.

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: KYAT, DEVALUATIONS
Control Number: n/a
Copy: SINGLE
Draft Date: 11 DEC 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: CunninFX
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974RANGOO03447
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D740359-0151
From: RANGOON
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19741243/aaaabkyl.tel
Line Count: 107
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators:
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: (A) STATE 256856 (B) RANGOON 3297 (C,) STATE 267687
Review Action: RELEASED, APPROVED
Review Authority: CunninFX
Review Comment: n/a
Review Content Flags:
Review Date: 10 JUL 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <10 JUL 2002 by shawdg>; APPROVED <26 MAR 2003 by CunninFX>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: DEVALUATION OF KYAT
TAGS: EFIN, BM
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005